

COUNTRY PROFILE: UNITED ARAB EMIRATES (UAE)**December 2005****COUNTRY**

Formal Name: United Arab Emirates (Al Imarat al Arabiyah al Muttahidah). العربية المتحدة. الإمارات. The seven emirates, in order of size, are: Abu Dhabi (Abu Zaby) أبو ظبي, Dubai (Dubayy), دبي, Sharjah (Ash Shariqah) الشارقة, Umm al Qaywayn أم القيوين, Ajman عجمان, Al Fajayrah الفجيرة, and Ras al Khaymah رأس الخيمة.

Short Form: UAE.

Term for Citizen(s): Emirati(s). امراتي

Capital: Abu Dhabi City. أبو ظبي

Major Cities: Al Ayn, capital of the Eastern Region, and Madinat Zayid, capital of the Western Region, are located in Abu Dhabi Emirate, the largest and most populous emirate. Dubai City is located in Dubai Emirate, the second largest emirate. Sharjah City and Khawr Fakkan are the major cities of the third largest emirate—Sharjah.

Independence: The United Kingdom announced in 1968 and reaffirmed in 1971 that it would end its treaty relationships with the seven Trucial Coast states, which had been under British protection since 1892. Following the termination of all existing treaties with Britain, on December 2, 1971, six of the seven sheikhdoms formed the United Arab Emirates (UAE). The seventh sheikhdom, Ras al Khaymah, joined the UAE in 1972.

Public holidays: Public holidays other than New Year's Day and UAE National Day are dependent on the Islamic calendar and vary from year to year. For 2005, the holidays are: New Year's Day (January 1); Eid al Adha, Feast of the Sacrifice (January 21); Muharram, Islamic New Year (February 10); Mouloud, Birth of Muhammad (April 21); Accession of the Ruler of Abu Dhabi—observed only in Abu Dhabi (August 6); Leilat al Meiraj, Ascension of Muhammad (September 2); first day of Ramadan (October 5); Eid al Fitr, end of Ramadan (November 4); and UAE National Day (December 2).

Flag: The UAE flag has three equal horizontal bands of green (on top), white, and black, with a wider vertical red band on the hoist side.



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HISTORICAL BACKGROUND

Early Years: The United Arab Emirates (UAE) was formed from the group of tribally organized Arabian Peninsula sheikhdoms along the southern coast of the Persian Gulf and the northwestern coast of the Gulf of Oman. This area was converted to Islam in the seventh century and for centuries afterward was embroiled in dynastic disputes. Most UAE nationals are descended from two tribal groupings, the Qawasim and the Bani Yas, which emerged as leading powers in the eighteenth century. The Qawasim, mainly land and sea traders, dominated what are today the emirates of Ras al Khaymah and Sharjah. The Bani Yas, who were agricultural and pastoral, lived in what are today the emirates of Abu Dhabi and Dubai. From the seventeenth to the nineteenth century, the area became known as the Pirate Coast, as both European and Arab pirates attacked foreign ships. The British mounted expeditions against the pirates during this period, culminating in an 1818 campaign against the pirate headquarters of Ras al Khaymah and other harbors along the coast. This action ostensibly was taken to safeguard British maritime routes, particularly those of the British East India Company, but some historians have noted that the war waged by Britain was in fact motivated by the desire to establish its supremacy in the region against the claims of other European powers.

British Rule: In 1820 Britain concluded a general treaty of peace with the principal sheikhs of the Pirate Coast and Bahrain. Its purpose was to end plundering and piracy and to establish a commitment to desist from the slave trade. The 1820 treaty includes the first denunciation of the slave trade ever written into a formal treaty. However, this treaty did not in practice prevent regular warfare at sea among the tribes of the coast, and in 1835 the sheikhs agreed to a new truce, pursuant to which they agreed to report aggression to British political or naval authorities rather than to retaliate themselves. This truce was renewed several times until May 1853, with the signing of a treaty to bring a complete halt to all hostilities at sea, establishing a “perpetual maritime truce.” The truce was supervised by Britain, to whom the signatories referred all violations. The coastal sheikhdoms now became known as the Trucial Coast, stemming from the treaties signed with the British that resulted in the maritime truce, or as Trucial Oman, because the treaties separated the sheikhdoms from Oman. These terms were used until 1971, on independence from Britain.

In 1892, as France, Germany, and Russia were developing an interest in the Gulf Region, Britain and the sheikhs of the Trucial Coast signed a new treaty, known as the “Exclusive Agreement.” Under this treaty, the sheikhs agreed not to enter into any agreement or correspondence with any power other than Britain and not to cede, sell, or mortgage any part of their territory to anyone other than Britain without British consent. From this period until independence in 1971, the individual coastal sheikhdoms were under British protection, which meant in fact that Britain assumed responsibility for their defense and external relations, while the sheikhdoms followed the traditional form of Arab monarchy, i.e., each ruler had virtually absolute power over his subjects.

Road to Independence: In 1952 Britain recommended that the rulers of the seven sheikhdoms establish a Trucial Council to encourage the adoption of common policies in administrative matters, possibly leading to a federation of states. The rulers met at least twice a year, under the chairmanship of the political agent in Dubai.

From 1958 on, when petroleum was first discovered beneath the coastal waters of Abu Dhabi, petroleum assets largely determined the power structure and relative prestige of the emirates. Onshore petroleum was found in Abu Dhabi in 1960, and commercial production followed in 1962, providing significant wealth to the sheikhdom, which remains the largest and most affluent emirate. Sheikh Shakhbut ibn Sultan Al Nuhayyan, who had ruled Abu Dhabi since 1928, failed to use the income from petroleum royalties to develop the sheikhdom and was deposed in 1966. He was replaced by his younger brother, Sheikh Zayid ibn Sultan Al Nuhayyan, under whose rule Abu Dhabi was transformed, with considerable income from the petroleum industry allocated for public works and the provision of welfare services. In 1966 petroleum was discovered in Dubai, which prospered greatly from this new wealth.

Independence: In 1968 the United Kingdom announced its decision, reaffirmed in March 1971, to end the treaty relationships with the seven Trucial Coast states and to withdraw British military forces from the area. In March 1968, the Trucial Coast states joined Bahrain and Qatar (which had also been under British protection) to form the Federation of Arab Emirates, but Bahrain and Qatar seceded from the federation in 1971, opting for separate independence. In July 1971, six of the Trucial States (Abu Dhabi, Ajman, Al Fujayrah, Dubai, Sharjah, and Umm al Qaywayn) agreed on a federal constitution for achieving independence as the United Arab Emirates (UAE). On December 1, 1971, the United Kingdom terminated all existing treaties with the Trucial Coast states, and independence was declared the following day. The seventh sheikhdom, Ras al Khaymah, joined the UAE in February 1972. At the time of independence, Sheikh Zayid ibn Sultan Al Nuhayyan of Abu Dhabi was named the first president of the UAE, a role he fulfilled until his death in 2004. The ruler of Dubai, Sheikh Rashid ibn Said Al Maktum, became vice president, and his eldest son, Sheikh Maktum ibn Rashid Al Maktum, the crown prince of Dubai, was named prime minister. In 1986 Sheikh Rashid assumed the posts of both vice president and prime minister, but on his death in 1990 Sheikh Maktum succeeded his father as ruler of Dubai and as vice president and prime minister of the UAE.

In 1971 the UAE adopted a provisional constitution that was intended to expire after five years, but it was in fact renewed until the adoption of a permanent constitution in 1996. The government was centralized further in 1976, when the federal government attained control over defense, intelligence services, immigration, public security, and border control.

GEOGRAPHY

Location: The UAE is located in the Middle East, situated on the Arabian Peninsula between Oman and Saudi Arabia and bordering the Gulf of Oman and the Persian Gulf.

Size: The UAE government estimates the total area of the UAE to be 83,600 square kilometers; excluding the three islands in the Strait of Hormuz, the area is 77,700 square kilometers (slightly smaller than the state of Maine). Abu Dhabi has an area of 67,350 square kilometers.



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Land Boundaries: The UAE's land boundaries total 867 kilometers. The emirates border Oman to the north and east (410 kilometers) and Saudi Arabia to the west and south (457 kilometers).

Disputed Territory: In 1974 Abu Dhabi and Saudi Arabia reached agreement settling a dispute over the Al Buraymi Oasis and other territory to the south, but the agreement has not been ratified by the UAE or recognized by Saudi Arabia. The UAE signed and ratified a boundary agreement with Oman in 2003 for the entire border, including Oman's Musandam Peninsula and Al Madhah enclaves, but the agreement and accompanying maps have not been made public. In 1992 Iran unilaterally took full control over three islands in the Strait of Hormuz—Greater and Lesser Tunb and Abu Musa, which it had shared with the Sharjah Emirate since 1971. As of late 2005, no significant progress had been made to resolve the dispute, and Iran had expanded its civilian and military presence on all three disputed islands.

Length of Coastline: The UAE has 1,318 kilometers of coastline along the Persian Gulf and Gulf of Oman.

Maritime Claims: The UAE claims a territorial sea of 12 nautical miles, a contiguous zone of 24 nautical miles, an exclusive economic zone of 200 nautical miles, and a continental shelf of 200 nautical miles or to the edge of the continental margin.

Topography: The UAE is primarily flat or rolling desert. Its coast, which stretches along the southern shore of the Persian Gulf, consists mainly of salt pans that extend far inland. The largest natural harbor is Dubai. The UAE also extends for about 90 kilometers along the Gulf of Oman, an area known as the Al Batinah coast. The UAE's highest point, at 1,527 meters, is Jabal Yibir in the jagged Al Hajar al Gharbi mountain chain, which splits the UAE from north to south in the northern emirates. Beginning at the UAE-Oman border on the Persian Gulf coast of the Musandam Peninsula, the mountains extend southeastward for approximately 150 kilometers to the southernmost UAE-Oman border on the Gulf of Oman. The mountain slopes tend to run right to the shore, except in the vicinity of Al Fujayrah, where there are sandy beaches. South and west of Abu Dhabi, vast, rolling sand dunes merge into the Rub al Khali of Saudi Arabia.

Principal Rivers: The UAE has no permanent rivers, but the desert area of Abu Dhabi includes two important oases with adequate underground water for permanent settlements and cultivation. The extensive Al Liwa Oasis is in the south near the undefined border with Saudi Arabia. Approximately 200 kilometers to the northeast of the Al Liwa Oasis is the Al Buraymi Oasis, which extends on both sides of the Abu Dhabi-Oman border.

Climate: The climate of the UAE is generally hot and dry. The summer months (July and August) are the hottest, with temperatures exceeding 40° C, coupled with very high humidity. The average temperature in the winter months, January and February, ranges from 17° C to 20° C. In the Al Hajar al Gharbi Mountains, temperatures are much cooler as a result of the increased elevation. The average annual rainfall in the coastal area is very low—between 100 millimeters and 200 millimeters—but in some mountainous areas annual rainfall reaches 350 millimeters. Rain in the coastal region falls in short, torrential bursts during the summer months.

Natural Resources: Oil and natural gas are the primary natural resources in the UAE, and petroleum production is the most important industry.

Land Use: Only 0.6 percent of the UAE is considered to be arable land, and 2.3 percent of the land is planted to permanent crops. About 720 square kilometers of land are irrigated.

Environmental Factors: The UAE is subject to frequent sand and dust storms, which can severely reduce visibility. The smaller islands in the Persian Gulf, as well as many coral reefs and shifting sandbars, are a menace to navigation. Strong tides and occasional windstorms further complicate ship movements near the shore. Desalination plants compensate for the lack of freshwater resources, but desertification (land degradation caused by aridity) and beach pollution from oil spills are serious problems.

Time Zone: The UAE is four hours ahead of Greenwich Mean Time.

SOCIETY

Population: Current population tabulations vary, as the UAE's last official census was taken in 1995. In that year, the total population was about 2.4 million. The population for 2003 is generally estimated at about 4 million, with an annual growth rate (between the years 1975 and 2002) averaging 6.9 percent. The majority of the population is urban, living in the two largest emirates—Abu Dhabi and Dubai.

Demography: The UAE's population is predominantly young. According to the Ministry of Planning, at the end of 2003 approximately half the population of 4 million (about 2 million people) was 15–39 years of age, and roughly one-quarter of the population (about 1 million people) was less than 15 years of age. Of the remaining population, approximately 700,000 people were 40–60 years of age, and 300,000 were older than 60. The population is also male dominant, with males numbering 2.7 million and females 1.3 million. In 2003 the birthrate and death rate were estimated to be 18.8 per 1,000 and 4.3 per 1,000, respectively. The infant mortality rate, like the population, is estimated to be higher for males—nearly 17 deaths per 1,000 live births, as compared with about 12 female deaths per 1,000 live births. The UAE has a relatively high level of life expectancy: 72.7 years for males and nearly 77.7 years for females, or 75.2 years overall. The country's fertility rate is more than 2.9 children per woman.

Ethnic Groups and Languages: UAE citizens constitute less than 20 percent of the population. The rest are foreign workers, predominantly from South and Southeast Asia (approximately 50 percent of the population). The remainder of the expatriate population includes a significant number of other Arabs—Palestinians, Egyptians, Jordanians, Yemenis, and Omanis—as well as many Iranians, Pakistanis, Indians, Bangladeshis, Afghans, Filipinos, and West Europeans. Arabic is the official language. Other languages spoken include Persian, English, Hindi, and Urdu, with English widely understood among the population.

Religion: The vast majority (approximately 95 percent) of the UAE's citizens are Muslims; approximately 85 percent of Muslims are Sunni and 15 percent, Shia. The government funds or

subsidizes almost 95 percent of Sunni mosques and employs all Sunni imams. A central federal regulatory authority distributes weekly guidance to both Sunni imams and Shia sheikhs regarding the content of religious sermons.

The UAE's constitution declares that Islam is the official religion of all seven of the constituent emirates of the federal union. Muslims are expressly prohibited from converting to other religions, but conversion by non-Muslims to Islam is viewed favorably. During Ramadan, all residents and visitors are required to abide by restrictions imposed on Muslims. Islamic studies are mandatory for citizen children attending public schools and for Muslim children attending private schools. Religious instruction in non-Muslim religions is not permitted in public schools.

According to the U.S. Department of State, non-Muslim religious leaders within the UAE and outside the country refer to it as one of the most liberal and broad-minded countries in the region in terms of governmental and societal attitudes toward allowing the unfettered practice of other faiths. The UAE government generally follows a policy of tolerance toward non-Muslim religions and, in practice, does not interfere very much with their religious activities. However, the government does prohibit non-Muslims from proselytizing or distributing religious literature under penalty of criminal prosecution, imprisonment, or deportation, deeming such behavior to be offensive to Islam.

In August 2003, in keeping with the government's adherence to principles of "interfaith tolerance," an Abu Dhabi-based think tank affiliated with the Arab League was closed. The center was accused of providing a forum for anti-Semitic themes. In that same year, the Dubai Evangelical Church Center opened in a large compound of Christian churches outside of Dubai, and Indian Orthodox, Coptic Orthodox, and Roman Catholic churches were opened, with others given authorization for future construction.

Education and Literacy: According to the UAE government, the literacy rate is 91 percent for females and 84 percent for males. The United Nations has estimated that the overall literacy rate for the population aged 15 to 24 is more than 90 percent. The government has set a goal of achieving full literacy before 2010.

The government has increased funding for education significantly over a 10-year period, spending US\$67.3 million in 1994 and nearly US\$1.5 billion in 2003. Public education is free for male and female citizen children through the university level. The UAE has one of the lowest pupil-to-teacher ratios (12:1) in the world. Education is compulsory through the ninth grade, although, according to the U.S. Department of State, this requirement is not enforced. Citizen children are required to attend gender-segregated schools through the sixth grade, the last grade of primary education. Approximately 2.7 percent of students in grades one through five and 4 percent of students in grades six through nine do not complete their education; this rate rises to 6.5 percent in grades 10–12.

The Ministry of Education has adopted "Education 2020," a series of five-year plans designed to introduce advanced education techniques, improve innovative skills, and focus more on the self-learning abilities of students. As part of this program, an enhanced curriculum for mathematics and integrated science was introduced at first-grade level for the 2003/2004 academic year in all

government schools. In addition, the UAE government believes that one of the main barriers to the employment of UAE nationals is a poor grasp of English and consequently will introduce a new English syllabus in all government schools over the next three years.

At the higher education level, more than 10,000 students (62 percent female) were admitted for the academic year 2004/2005. Numerous institutions are available to the student body. In 1976 UAE University was established in Al Ayn in Abu Dhabi. Consisting of nine colleges, it is considered by the UAE government to be the leading teaching and research institution in the country. In 1988 the first four Higher Colleges of Technology (HCT) were opened. At present, 11 all-male campuses offer more than 75 programs, with a combined enrollment of 15,000 students. The commercial arm of the HCT, the Centre of Excellence for Applied Research and Training, is allied with multinational companies to provide training courses and professional development. In 1998 Zayid University was opened for women, with campuses in Abu Dhabi and Dubai. In order to accommodate the increasing female enrollment and admit male students (total enrollment by 2017 is expected to increase to 7,000), a major expansion of the university is underway.

In 2003 Dubai established a dedicated education zone, Knowledge Village, based at Dubai Internet City, to bring together globally recognized international universities, training centers, e-learning, and research and development companies in one location. It has met thus far with only limited success, unable to attract the prestigious American universities that have instead chosen to be based in Qatar's Education City.

Health: Standards of health care are considered to be generally high in the UAE, resulting from increased government spending during strong economic years. Total expenditures on health care in 2002 constituted 3.1 percent of gross domestic product (GDP); in that same year, the per capita expenditure for health care was US\$802. Health care currently is free only for UAE citizens. The government is considering (in consultation with the World Health Organization) creating a national health insurance program to offset the costs of health spending for federal and local governments. The number of doctors per 100,000 (annual average, 1990–2003) is 177. The UAE now has 30 public hospitals, compared with only seven in 1970. The Ministry of Health is undertaking a multimillion-dollar program to expand health facilities—hospitals, medical centers, and a trauma center—in the seven emirates. A state-of-the-art general hospital has opened in Abu Dhabi, with a projected bed capacity of 143, a trauma unit, and the first home health care program in the UAE. To offset the trend of wealthy UAE nationals and expatriates traveling abroad for serious medical care, Dubai is building Dubai Healthcare City, offering tax and other incentives to health care providers who locate there.

Cardiovascular disease is the principal cause of death in the UAE, constituting 28 percent of total deaths; other major causes are accidents and injuries, malignancies, and congenital anomalies. In 1985 the UAE established a National AIDS Control and Prevention program to prevent transmission of the disease and control its entry into the country. According to the World Health Organization, in 2002–3 the estimated number of people in the UAE living with human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS) was less than 1,000.

Welfare: Among developing nations, as categorized by the United Nations, the UAE ranks forty-ninth on the human development index, which is a measure of life expectancy, education, and standard of living. In 1999 the Federal National Council approved legislation providing monthly social security benefits to national widows and divorced women, the disabled and handicapped, the aged, orphans, single daughters, married students, relatives of jailed dependents, estranged wives, and insolvents. Also eligible are widowed and divorced national women previously married to foreigners and expatriate husbands of UAE national women. In 2003 the government distributed approximately US\$179 million to 77,000 beneficiaries of social welfare, the largest group of recipients being the elderly (12,000). In early 2005, the government announced plans to reform the UAE's welfare system to ensure that the annual budget, which has risen to US\$190 million, is targeted to the neediest population. The recipient population has dropped since 1980, but the cost to the government has risen by 16 percent per person. Social security entitlements constitute between 1 and 2 percent of gross domestic product.

ECONOMY

Overview: In the 40 years since oil was first discovered and exported, the UAE has been transformed from a region of small sheikhdoms subsisting on pearling, fishing, herding, and agriculture to a modern state with a high per capita income and substantial trade surplus. The two largest emirates, Abu Dhabi and Dubai, which are the principal petroleum producers and provide more than 80 percent of the UAE's income, dominate the economy, while the northern emirates remain relatively undeveloped. Key economic policy decisions are made at the emirate level, and there is little coordination in the economic affairs of the seven emirates.

The UAE economy remains heavily dependent on oil and natural gas; the revenue from oil exports in particular enables the government to finance infrastructure for the non-oil economy. Statistically, however, the oil sector has declined in recent years as a percentage of the gross domestic product. Economists forecast that the oil sector will, in 2005–6, account for less than 10 percent of the annual increase in the size of the economy, which is expected to grow at an average annual rate of approximately 6.5 percent. Investment in manufacturing and energy-intensive sectors such as petrochemicals and metals will drive the non-oil sector, aided by exports made more competitive by the weakness of the U.S. dollar. The services sector, primarily tourism, is expected to continue to gain strength.

Sheikh Khalifa ibn Zayid Al Nuhayyan, who succeeded his father as president of the UAE in November 2004, is expected to continue the relatively liberal economic policies of his predecessor: privatization of some government assets; provision of incentives for foreign and domestic private investment; maintenance of zero (or near-zero) direct taxation; and curtailment of both money laundering and the use of the banking system to foster terrorist activities.

Gross Domestic Product (GDP): For 2003 the UAE's GDP was US\$79.8 billion. The Ministry of Planning reported a real growth rate of 7 percent, driven by a 13.8 percent increase in crude oil production. Economists' estimates for the 2004 real GDP growth rate average 6 percent, with GDP exceeding over US\$90 billion. For the period 2005–6, real GDP growth is expected to remain strong, again driven by high oil earnings but also by sustained expansion in the non-oil

sectors of the economy. Forecasts for real GDP growth are nearly 7 percent from 5.8 percent to 6.5 percent for 2005, with GDP exceeding US\$100 billion.

Government Budget: In mid-2005, the UAE Ministry of Finance and Industry released the 2005 federal budget, which accounts for approximately 25 percent of total federation spending; the remainder is spent at the emirate level, and the combined expenditures constitute the consolidated accounts. According to UAE government figures, in 2005 the UAE is projected to have a balanced budget, as a result of a 4.5 percent rise in revenue over 2004, coupled with a 4.9 percent decrease in expenditures. This budget is the first in more than 20 years that does not assume a deficit.

Other sources estimate that based on rising global oil prices offset by significant public-sector pay increases and higher capital expenditures, the 2004 budget will actually show a deficit of about US\$890 million; in 2005 the deficit will be about US\$630 million. However, economists caution UAE fiscal data inaccurately reflect the actual strength of the government's finances, for two reasons. First, a significant portion of Abu Dhabi's oil earnings are not reported as current revenue, but rather are paid directly into reserve accounts. Second, the data do not reflect the substantial income generated by the emirates from overseas investments, most of which are held by Abu Dhabi. Both of these revenue streams are used to fund part of the federal deficit, and were they to be factored into the budget equation, the government budget could actually show a significant surplus.

Inflation: Inflation in the UAE is more marked than in most of the oil-based economies but remains modest by international standards, averaging slightly more than 2 percent during the period 1995–2002. The rate of inflation for 2003 was 3 percent and is estimated to have increased less than 0.5 percent for 2004. However, economists note that UAE government data reflect only costs incurred by UAE nationals, who constitute only one-fifth of the population and are protected by an extensive system of subsidies that restrict price increases on a range of core goods and services. A more realistic measure of the cost of living for UAE residents (factoring in the weakening of the dirham against major currencies) would result in an inflation rate of 7 to 10 percent.

Agriculture, Forestry, and Fishing: As a result of adverse climatic conditions (nutrient-poor soil, extreme aridity, and high summer temperatures) in the UAE, in 2003 agriculture represented a relatively small portion (an estimated 3.7 percent) of the country's gross domestic product. Employment in the agricultural sector constituted only 7.9 percent of the employed population in 2000, but because a relatively high proportion of UAE nationals are employed in farming, the sector receives a disproportionate share of government subsidies at both the federal and local level. Dates remain the UAE's major crop in terms of area cultivated, but the production of vegetables has increased dramatically, particularly in Abu Dhabi, and currently generates the most revenue. Other major agricultural products are eggs, dairy products, and poultry.

Fishing and pearl diving traditionally were an important part of the economy, but the pearl industry collapsed with the development of cultured pearls, and fishing is done almost exclusively for domestic consumption. There is no fish-processing industry in the UAE to

provide a market for the 20,000 or more tons of fish caught each year that exceed local demand, and the surplus is either exported or returned to the sea.

Mining and Minerals: The UAE's economy is dominated by the hydrocarbon sector, which accounts for more than 30 percent of total gross domestic product. The Supreme Petroleum Council, headed by the crown prince of Abu Dhabi, has ultimate control over energy policy in the UAE. Despite the crown prince's commitment to diversifying the economy by reducing dependency on oil, production continues to rise, with the goal of increasing capacity to 3 million barrels per day by 2007.

According to statistics published by *Oil and Gas Journal* in January 2005, the UAE contains proven crude oil reserves of 97.8 billion barrels, or almost 8 percent of the world total. Of this amount, Abu Dhabi holds 94 percent (approximately 92.2 billion barrels). Dubai contains approximately 4.0 billion barrels. Under the UAE's constitution, each emirate controls its own production and resource development. Abu Dhabi became a member of the Organization of the Petroleum Exporting Countries (OPEC) in 1967, but Dubai does not consider itself part of OPEC or bound by its quotas. As of March 16 2005, the UAE's OPEC production quota stood at 2.4 million barrels per day, and as of April 2005, its crude oil production was 2.5 million barrels per day, which is the same as its total production capacity.

Also according to statistics published by *Oil and Gas Journal* in January 2005, the UAE has natural gas reserves of 212 trillion cubic feet, the fifth largest supply in the world after Russia, Iran, Qatar, and Saudi Arabia. Abu Dhabi holds the largest reserves—196.1 trillion cubic feet. The emirates of Sharjah, Dubai, and Ras al Khaymah hold considerably smaller reserves. UAE natural gas production rose from 1,100 billion cubic feet in 1995 to 1,500 billion cubic feet in 1002, surpassing consumption demands.

Industry and Manufacturing: Industry (including mining, manufacturing, construction, and power) accounted for an estimated 48 percent of the gross domestic product (GDP) in 2003 and employed an estimated 33 percent of the workforce in 2000. The major heavy industries in the UAE are related to hydrocarbons, and the bulk of the manufacturing industry is centered in the Jabal Ali Free Zone in Dubai and the Jabal az Zannah-Ar Ruways industrial zone in Abu Dhabi. The main products are liquefied petroleum gas, distillate fuel oils, and jet fuels. Manufacturing constituted 15.7 percent of GDP in 2003 and employed 11 percent of the workforce in 2000. Aluminum has emerged as a key manufacturing activity over the last 20 years as a result of the growth of Dubai Aluminum, owned by the Dubai government. The company's 2004 production capacity of 600,000 tons per year placed it as one of the world's top 10 producers. Other manufacturing sub-sectors are steel and chemicals.

In November 2004, in an effort to strengthen its industrial base, Abu Dhabi entered into a US\$1.3 billion joint venture with Volkswagen of Germany to buy Leaseplan, a European car fleet firm. Volkswagen also will manufacture commercial vehicles in Abu Dhabi's new industrial zone, which is expected to be operational by 2006.

Energy: In 1997, in response to the UAE's rising demand for electric power, coupled with volatile swings in peak loads, the Abu Dhabi government formed the Privatization Committee

for the Water and Electricity Sector, to assess the emirate's energy requirements and consider privatization as an option. This committee recommended that Abu Dhabi's water and electricity department be changed to a semi-autonomous regulatory body, the Abu Dhabi Water and Electricity Authority (ADWEA), and that the emirate's power stations be partially or totally privatized. The privatization of production through the creation of independent water and power projects (IWPPs) has become the cornerstone of ADWEA's strategy to meet continuing increased demand for power and water (estimated to rise 10 to 15 percent a year).

The first IWPP was the Taweelah A-2 project, commissioned in 2001, which added 710 megawatts of power and 50 million gallons per day of desalinated water to the UAE's supplies. As in all IWPP joint ventures, ADWEA has a 60 percent share in the company established to build, own, and operate the plant. Taweelah A-1, a project expanding an existing facility to bring capacity to 1,350 megawatts and 84 million gallons per day, was commissioned in May 2003. The Taweelah B plant, where capacity is currently 1,000 megawatts and 90 million gallons per day, is slated for a US\$3 billion expansion. A private consortium led by Marubeni of Japan and U.S.-based BTU Power has completed an agreement with ADWEA; by 2008, power capacity will be doubled to 2,000 megawatts and water desalination capacity raised by 65 million gallons per day.

The Dolphin gas pipeline project was formulated in 1999 to bring gas from Qatar's massive offshore North Dome Field to the UAE via a 182-kilometer export pipeline. In its initial phase, scheduled to begin in late 2006, the pipeline is expected to carry 3 billion cubic feet per day of Qatari natural gas to the UAE and Oman, almost 10 percent of total world natural gas supplies shipped by pipeline. This project is important to the UAE's northern emirates, especially Dubai, where natural gas resources are not meeting demand. In addition, the pipeline is viewed as a long-term solution to the rising demand for power and water, because natural gas is the primary fuel for power generation and desalination plants.

The UAE is positioning itself strategically in the Gulf region by participating in a US\$1 billion project to build a regional power grid throughout the Gulf Co-operation Council (GCC) countries. The first phase links Saudi Arabia, Bahrain, and Qatar. The UAE and Oman would participate in the second phase, contingent on each country's having its own unified power grid. In 2003 the UAE awarded a contract to Electricité de France to connect all the power stations along its western coast with the central region.

Services: According to the UAE government, the services sector (including financial enterprises and government services) produced 49.5 percent of the gross domestic product (GDP) in 2002 and 48.2 percent of GDP in 2003. This sector employed more than 1 million persons in 2002 and more than 1.1 million persons in 2003, which is approximately 50 percent of the total work force.

Banking and Finance: The UAE Central Bank was established in 1980 to direct monetary, credit, and banking policy. It maintains the UAE government's reserves of gold and foreign currencies, acts as the bank for banks operating in the UAE, and acts as the state's financial agent at international financial institutions. In response to pressure from the World Trade Organization to open the banking sector to more foreign competition, the UAE Central Bank has stated that it will issue new licenses in 2005. Relative to its population and gross domestic

product, the UAE has an unusually high number of banks—20 local, 26 foreign, 2 specialized, and 40 representative offices of other foreign banks. The top five commercial banks control 65 percent of total banking assets and reported a 60 percent increase in profits in the first quarter of 2005.

The Dubai International Financial Center (DIFC) opened officially in September 2004. The DIFC is a self-regulating financial free zone, operated independently of the UAE Central Bank. More than a dozen international financial institutions are members. The Dubai International Financial Exchange, which is a stock, bond, and derivatives market that will be the core of DIFC, opened in September 2005. It is 100 percent open to foreign investment.

The Dubai Financial Market (DFM) opened in March 2000 and by February 2004 had 14 listed companies. It reported an increase in trading volume of 49 percent between 2002 and 2003. The Abu Dhabi Securities Market, which has been linked electronically to DFM since 2004, reported an increase in trading volume of 176 percent between 2002 and 2003. The Shuaa Capital UAE General Index has shown exceptional growth. It rose by 103 percent in 2004 and at the end of April 2005 was up 87 percent since the beginning of the year.

Terrorism is financed using the banking system in two primary ways—through money laundering and through financial transactions in the *hawala* system, which is a traditional alternative remittance system that operates outside the control of the conventional banking sector. After 9/11, a link was drawn between branches of Citibank in the UAE and the United States and financing of the terrorist attacks. In response, the UAE Central Bank has frozen the assets of organizations suspected of having ties to al Qaeda or to the former Taliban regime in Afghanistan. Legislation was enacted in 2002 tightening reporting requirements for financial transactions and increasing penalties for money laundering. The *hawala* finance system is thought to be the conduit for much of the funding earmarked for terrorist activities. Although *hawala* operators are now licensed in the UAE and required to report suspicious transactions to the UAE government, it is unclear whether this regulation is enforced.

Tourism: The primary source of the UAE's rapidly growing tourism sector is the Dubai Emirate, which hosts the world's tallest hotel. It has seen dramatic growth in hotel revenue (a 42 percent increase from 2003 to 2004) and reports hotel occupancy rates approaching 90 percent. The emirate hosted 5.5 million visitors from India, Pakistan, Iran, Lebanon, the Philippines, Europe, Australia, and South Africa in 2004, two-thirds of whom were traveling for business purposes. The main attractions for tourists are beaches, nightlife, shopping, and luxurious accommodations. Dubai has grandiose plans for the future—the building of four man-made island structures off the coast of Dubai that will house more than 100 new hotels, as well as residential villas and apartments.

Labor: Numerous labor issues plague the UAE, resulting directly from the disproportionate number of expatriates (80 percent of the population) living and working there. Unemployment among UAE nationals is estimated to be less than 2.5 percent. However, the UAE government recently reported that the majority of UAE nationals work in the public sector, which has “reached saturation point.” Although the private sector provides 52 percent of the jobs in the UAE, nationals constitute only 2 percent of that workforce. Recognizing that foreigners

dominate the private sector, both as employers and employees, and that by 2006 there will be more than 100,000 secondary school and approximately 70,000 technical college/university graduates seeking employment, the concept of “emiratisation” is becoming the predominant theme in the debate over government labor policy. In addition to evaluating ways to create employment opportunities in various economic sectors (including enforcing a minimum quota of UAE nationals across the private sector, as currently exists in the banking sector), the government is developing enhanced school curricula to reflect the need for stronger math and science skills, as well as improved English language skills.

Hundreds of thousands of low skilled, poorly paid (often unpaid) South Asians work in the UAE in substandard living conditions without any rights or recourse for alleged abuses. Workers reportedly are denied health care, and there have been numerous instances of industrial accidents, particularly in the construction industry, which is the main employer of expatriate Asian labor. Although the UAE government has implemented employment guidelines to conform to International Labour Organisation standards, many employers in the construction industry fail to comply.

Confirming his pledge on taking office to promote the interests of UAE nationals, in early 2005 the UAE president announced a 25 percent pay increase for all citizens working in federal government institutions as well as the UAE armed forces and employees of the Abu Dhabi Emirate, effective May 1, 2005. Expatriates working in the public sector are eligible for a 15 percent raise.

Foreign Economic Relations: In 1977 the Arab Monetary Fund (AMF), based in Abu Dhabi, was established by 20 Arab states to provide loans to member states, primarily for balance-of-payments support. In 1981 the UAE joined with Saudi Arabia, Kuwait, Bahrain, Qatar, and Oman to form the Gulf Co-Operation Council (GCC). Although the GCC was created primarily in response to regional stability and security concerns, it also serves to coordinate the economic and monetary policies of its members.

The UAE is a member of the Organization of Arab Petroleum Exporting Countries (established in 1968 to coordinate members’ oil policies), and Abu Dhabi joined the Organization of the Petroleum Exporting Countries in 1967. OPEC was formed in 1960 to coordinate the petroleum policies of the main oil-exporting countries. The UAE has been a member of the World Trade Organization (WTO) since 1996; WTO policies apply to each of the seven emirates.

In September 2003, the International Monetary Fund and World Bank held their joint annual meeting in Dubai. This was the first time the conference had been held in the Middle East and was seen as a clear reflection of the UAE’s pro-Western stance. In early 2004, the UAE and the United States signed a Trade and Investment Framework Agreement, the first step toward negotiation of a bilateral free-trade agreement (FTA). In November 2004, the United States formally announced that it would negotiate an FTA with the UAE and Oman, and negotiations began in March 2005. Saudi Arabia has opposed FTAs between GCC member countries and the United States as violations of an existing GCC external tariff agreement and has argued that the GCC should negotiate trade agreements as a bloc, as it is doing with the European Union.

In a show of regional unity, and of greater political and diplomatic than economic consequence, the UAE and Qatar have announced they will build a US\$1.8 billion causeway linking the two countries. Formally announced during a GCC summit, the causeway project will be part of a network that eventually will link four of the six GCC states by one road.

Imports: Imports totaled US\$41.7 billion in 2003 and are projected to increase to US\$48.8 billion in 2004, US\$52.9 billion in 2005, and US\$56.9 billion in 2006. Principal imports are machinery and transport equipment, chemicals, and food. The principal source of UAE imports in 2003 was China (11.4 percent of the total). Other major countries of origin included the United States, France, and Germany.

Exports: In 2003 UAE exports totaled US\$60.8 billion; this number is estimated to have increased to US\$74.7 billion in 2004 and is forecast to increase to US\$83.7 billion in 2005 and to US\$81.5 billion in 2006. According to official balance-of-payments statistics, the UAE's total hydrocarbon exports in 2003 accounted for almost 70 percent of the country's total export revenues (excluding re-exports). Non-oil sectors of the economy contributed approximately 30 percent of the country's total exports. The primary destinations of UAE exports were Japan (27 percent of total exports), South Korea, Iran, and Thailand.

Trade Balance: As a result of the improved outlook for international oil prices, economists expect continued significant increases in export revenues. Import spending also will continue to grow an average 8 percent a year. The demand for re-exports, coupled with local demand for industrial and consumer goods, drives this increase in imports. The overall effect on the UAE's economy is a trade surplus of US\$19.1 billion in 2003, an estimated trade surplus of US\$25.9 billion in 2004, and a projected trade surplus of US\$30.8 billion in 2005.

Balance of Payments: Economists point to two primary factors contributing to the UAE's current-account surplus: growth of the services sector, driven by tourism, and greater return on the emirates' large portfolio of foreign assets, fueled by higher interest rates. Although these inflows will be offset by various non-merchandise and other outflows, a net current-account surplus of an estimated US\$12.6 billion is forecast for 2004 (about 14 percent of gross domestic product—GDP) and US\$17.2 billion for 2005 (about 17 percent of GDP). The surplus is expected to decline to US\$10.6 billion in 2006 (about 11 percent of GDP).

External Debt: Although the UAE does not release data on external debt, the Organisation for Economic Co-operation and Development has reported that foreign borrowing was at US\$18.6 billion at the end of 2000, which represented 27 percent of gross domestic product. Economists estimate that the debt stock rose to US\$21.5 billion in 2003 and to US\$22.9 billion in 2004. These amounts are attributed to the growing number of infrastructure projects financed through medium- and long-term foreign borrowing. The UAE maintains an estimated US\$18.6 billion in reserves of foreign exchange and gold.

Foreign Investment: The UAE has enjoyed limited success in attracting foreign direct investment (FDI) from multinational companies, and the emirates traditionally have limited competition in key economic sectors. In 2004 economists cited statistics from the United Nations Conference on Trade and Development setting the FDI average at US\$150 million to US\$200

million per year in previous years, but noted that factoring in private investment in joint ventures such as the independent water and power projects in Abu Dhabi would yield a much higher dollar amount. The Kuwait-based Inter-Arab Investment Guarantee Corporation has reported that between 1985 and 2001 the UAE received approximately US\$2.1 billion in Arab capital while it in turn placed nearly US\$1.3 billion into Arab markets.

The level of foreign investment in the UAE may well increase in future years, as laws are liberalized and investment opportunities increase. At present, the UAE's companies' law stipulates that foreign investors may own a maximum of 49 percent of a company registered in the UAE; the controlling share of the company must remain with a UAE national. There is an exception for companies located in designated "free zones," which can be 100 percent foreign-owned. The UAE government views the establishment of these trade zones (most of which are in Dubai) as an effective magnet for foreign investment. Companies doing business there are eligible for corporate tax holidays, exemption from personal taxes, repatriation of capital and profits, and exemption from import duties and currency restrictions. A new companies' law expected to be issued by the end of 2005 would allow foreigners to have a majority share, possibly 100 percent, of UAE-based firms. In December 2004, the UAE's economy minister promised to make the UAE's business environment more open to foreign and domestic investment. In addition, World Trade Organization requirements will force the UAE government to reform, by mid-2006, a number of other business regulations that currently impede foreign firms doing business there.

The Dubai International Financial Exchange, opened at the end of September 2005, is a bond, equity, and derivatives exchange that is 100 percent open to foreign investment. The UAE wants to attract foreign issuers, particularly from the Arab world, South Africa, and India.

Foreign Aid: The Abu Dhabi Fund for Development, founded in 1971, assists developing countries in the development of their economies by extending project loans, guarantees, technical assistance grants, and equity participation. The fund extends assistance to 47 countries, the majority of its loan commitments (80.5 percent) going to Arab countries. Asian countries receive 9.5 percent of the fund's total assistance, and African countries, 7 percent.

Currency and Exchange Rate: The UAE's currency is the dirham (Dh), which is valued at Dh 3.67 per US\$1. The dirham has been pegged to the U.S. dollar at this rate since 1980. In December 2001, the Gulf Co-Operation Council agreed to establish a single currency for the region, the "dinar," by January 2010.

Fiscal Year: The UAE's fiscal year coincides with the calendar year.

TRANSPORTATION AND TELECOMMUNICATIONS

Overview: The UAE's modern internal transport system was developed primarily in the 1960s and 1970s, with the construction of main roads to link the major cities. Maritime trade is a mainstay of the economy because of the UAE's strategic location on the Persian Gulf, and Dubai's ports at Mina Rashid and Mina Jabal Ali (the largest man-made port in the world) are considered the UAE's premier maritime facilities. The road network is well advanced in urban

areas, and a light rail system is planned for Dubai City. The UAE has six international airports, and the emirates of Abu Dhabi and Dubai are both making major investments in airport infrastructure, potentially increasing passenger traffic exponentially over the next 10 years.

Roads: Transport within the UAE is almost entirely road-based. Development of the road network since the 1970s has been rapid, and the quality of the roads is good, particularly in Abu Dhabi and Dubai. The UAE has 1,088 kilometers of paved roadways, including 253 kilometers of expressways.

Dubai Municipality, which is responsible for government transportation policy in that emirate, has announced plans to introduce tolls on its busiest roads, in an effort to reduce growing traffic congestion. It also plans to expand Dubai's urban bus network and promote commuter ride-sharing to alleviate this problem.

Railroads: The UAE currently has no rail network, but work is expected to begin in 2006 on Dubai Metro, a 70-kilometer, two-line urban light rail system that will crisscross the city. This project, slated for completion in 2009, will be 100 percent financed by the Dubai Municipality.

Ports: According to the UAE government, 15 commercial ports (including oil terminals) currently serve the country, with a total capacity of more than 70 million tons. Located in the city of Dubai, Mina Rashid, completed in 1972, is the leading port of the Gulf region. It has modern facilities to handle almost all types of commercial and passenger shipping, including roll-on-roll-off containers. Also located in Dubai, Mina Jabal Ali, completed in 1979, is the largest port in the country and the largest man-made harbor in the world. It deals primarily in bulk cargo and industrial material for the Mina Jabal Ali Free Zone, an international investment haven. In 2004 the two ports had a combined annual traffic of more than 77 million tons of cargo, nearly 65 million twenty-foot-equivalent-units of containers, and 14,000 vessels. The two ports, collectively, ranked tenth in the world in terms of total container throughput in 2004.

In August 2005, the Dubai Ports Authority began the first stage of a multi-year, US\$1.4 billion expansion project at Mina Jabal Ali that will increase storage-handling capacity to 2.5 million twenty-foot-equivalent units by 2007, and 5 million twenty-foot-equivalent units by 2008. In September 2005, the Dubai Ports Authority merged with Dubai Ports International Terminals to create a single global port operator—Dubai Ports World, owned by the Dubai government. A new regulatory body, the Dubai Ports and Jabal Ali Free Zone Authority, was created to oversee the regulation and administration of Dubai's port operations.

Mina Zayid, established in 1972, is Abu Dhabi's main general cargo port. Its container terminals have a capacity of 15,000 twenty-foot-equivalent-units. A 15-year expansion of this port has been underway since 1998. The first phase, scheduled for completion in 2006, is expected to double the port's container handling capacity.

Inland Waterways: The UAE has no waterways of any significant length.

Civil Aviation and Airports: The UAE has 35 airports, 22 of which have paved runways, as well as two heliports. Of the 35 airports, six are international.

Dubai is attempting to become a leading passenger and freight hub by undertaking several major initiatives. Dubai International Airport, which now supports 105 airlines, is undergoing a US\$4.1 billion expansion, including the construction of a third passenger terminal and two new concourses, as well as a cargo terminal enabling cargo capacity of 3 million tons per year by 2018. In 2004 passenger traffic at the airport rose by 20 percent, to 21 million people. The expansion is expected to increase passenger capacity to close to 60 million people. Dubai also will build a second airport—Dubai International Airport City—with six runways and the capacity to handle 120 million passengers per year. Work is expected to begin in 2005, but no completion date has been set. In addition, the state airline, Emirates, is planning a major expansion. It has ordered 45 Airbus A380 “superjumbo” airliners, the largest single order for the aircraft from any airline.

Abu Dhabi International Airport, which supports 50 airlines, is undergoing a multi-year, US\$500 million expansion project; completion is expected by 2006. According to the UAE government, this airport handled 4.3 million passengers in 2003 and experienced a 28 percent growth in passenger traffic the following year. Al Ayn International Airport, built in 1994, supports 10 airlines, and plans have been made to spend US\$20.5 million to expand its facilities. In 2003 Abu Dhabi launched Etihad Airways to compete with Emirates, and there currently are plans to invest US\$7 billion to expand the fleet from 35 aircraft to 100 (by 2010).

Sharjah International Airport, the first airport to be built in the UAE, launched the low-cost Air Arabia Airlines in 2003 to serve destinations in the Middle East and Asia. The airport handles 1.3 million passengers per year. There are currently plans to spend US\$61 million over the next two years to expand this airport’s facilities.

Pipelines: According to the U.S. government, as of 2004 the UAE had a total of 6,365 kilometers of pipeline. This total includes pipeline designated for: condensate, 469 kilometers; gas, 2,655 kilometers; liquid petroleum gas, 300 kilometers; oil, 2936 kilometers; and oil/gas/water, 5 kilometers.

Telecommunications: The US\$250 million Dubai Internet City (DIC), opened in 2000, has made Dubai the regional center for e-commerce, attracting major international telecommunications firms. DIC offers various incentives to companies that locate there, including 100 percent foreign ownership rights, tax-free corporate earnings (guaranteed for 50 years), exemption from customs duties, and full rights to repatriate profits.

Etisalat, the UAE state telecommunications operator, provides Internet access to 1.1 million users and has a virtual monopoly on the country’s telecommunications sector; it also operates and maintains the national and international fixed telephone line network, mobile telephony, and cable TV services. The company has been highly successful and has invested heavily in telecommunications infrastructure. Efforts are underway to end Etisalat’s monopoly in April 2006, on the expiration of the 10-year monopoly exemption the UAE negotiated with the World Trade Organization (WTO). Last year, the UAE government established the Telecommunications Authority to oversee the general process of telecommunications deregulation.

The UAE is believed to have the best telecommunications network in the Arab World—the highest voice connection and broadband Internet connectivity capacity per capita. The UAE also has the lowest mobile-phone rates in the Arab world (US\$0.06 per minute). According to recent UAE government statistics, the UAE has more than 3 million mobile cellular telephone subscribers, as compared with nearly 1.2 million landlines in use. These numbers represent a penetration rate of, respectively, 81 and 28 lines per 100 residents. The technology used for domestic lines includes microwave radio relay and fiber optic and coaxial cable.

Except for those located in Dubai's Media Free Zone, most television and radio stations are government owned. The government-owned Emirates Media owns Abu Dhabi's radio and television stations. As of 2004, 15 television broadcast stations and 13 AM, 8 FM, and 2 short-wave radio stations were in operation.

GOVERNMENT AND POLITICS

Overview: The UAE is a federation of seven self-governing emirates. The constitution, which was made permanent in 1996, specifies that all powers not specifically allocated to federal institutions remain the prerogative of the individual emirates. In November 2004, Sheikh Zayid ibn Sultan Al Nuhayyan, president of the UAE and ruler of Abu Dhabi since the UAE declared its independence from Britain in 1971, died. In a smooth transition of power, his son, Sheikh Khalifa ibn Zayid Al Nuhayyan, who had been the crown prince of Abu Dhabi for more than 30 years, was named his successor. Sheikh Khalifa's half-brother, Sheikh Mohammed ibn Zayid Al Nuhayyan, succeeded him as crown prince of Abu Dhabi. Immediately preceding Sheikh Zayid's death, the Council of Ministers was reorganized for the first time since 1997; the first woman cabinet member was named, two ministries were combined to form a new Ministry of Energy, and a new Ministry of Supreme Council and GCC Affairs was created to further regional economic integration. The ruler of Dubai, Sheikh Maktum ibn Rashid Al Maktum, has held the post of prime minister and vice president since 1990, when he succeeded his father, Sheikh Rashid ibn Said Al Maktum. Abu Dhabi has been historically, and remains today, the politically predominant emirate because of its size, population, hydrocarbon wealth, portfolio of overseas assets (US\$250 billion in 2005), and large budget exceeding that of the UAE government. The emirate of Dubai holds a secondary position by virtue of being the hub of private-sector activity. The UAE has neither democratically elected institutions nor political parties.

Constitution: In December 1971, the federation of six Trucial coast states, later joined by the seventh, agreed on a provisional federal constitution, which was to expire after five years, when a formal constitution would be drafted. However, the provisional constitution was renewed periodically until May 1996, when legislation to make the provisional constitution permanent was endorsed by the legislature (Federal National Council), following approval by the Supreme Council of Rulers (rulers of the seven emirates). In addition to the Federal National Council and the Supreme Council of Rulers, the constitution provides authority for the president and vice president of the union, the cabinet (Council of Ministers), and the federal judiciary, and specifies the powers allocated to these institutions. Under the constitution, sharia, Islamic religious law, is a principal source for law. The permanent constitution also names Abu Dhabi as the capital of the state.

Branches of Government: The highest federal authority is the Supreme Council of Rulers, consisting of the rulers of the seven emirates. This body elects the president (who has always been the ruler of Abu Dhabi) and the vice president (who has always been the ruler of Dubai). The president appoints the prime minister and Council of Ministers. The Federal Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy, and may relieve the prime minister of his post on the recommendation of the president.

The UAE's legislature is the Federal National Council. This body, which under the constitution has responsibility for examining and amending proposed federal legislation, functions only as a consultative assembly. It comprises 40 members appointed by the emirates for a two-year term. The most populous emirates, Abu Dhabi and Dubai, have the most members (eight each); Sharjah and Ras al Khaymah have six members each, and the remaining emirates have four members each. On December 1, 2005, President Khalifa announced that at a future unspecified date half the members of the Federal National Council would be elected by a council formed by the emirates; the remaining half would be appointed.

Administrative Divisions: The UAE is a federation of seven emirates—Abu Dhabi (Abu Zaby), Ajman, Al Fujayrah, Dubai (Dubayy), Ras al Khaymah, Sharjah (Ash Shariqah), and Umm al Qaywayn.

Provincial and Local Government: Each of the seven emirates has its own government, which functions in tandem with the federal government. The largest and most populous emirate, Abu Dhabi, has its own central governing body, the Executive Council, chaired by the crown prince; the Eastern and Western Regions and the island of Das are headed by a ruler's representative. Municipalities administer the main cities, each of which has a municipal council. The National Consultative Council functions like the Federal National Council. Local departments carry out various administrative functions. A similar system of municipalities and departments exists in the other emirates.

Judicial and Legal System: The UAE has a federal judiciary encompassing all the emirates except Dubai and Ras al Khaymah, each of which has its own court system that is not subject to the Federal Supreme Court. The court structure has three main branches: civil, criminal, and sharia courts. In civil matters, the lowest courts are the courts of first instance, which hear all claims ranging from commercial matters to maritime disputes. Each emirate has a Federal Appeal Court. The highest court of appeal is the Court of Cassation, also known as the Federal Supreme Court; it is located in Abu Dhabi and consists of five judges appointed by the Supreme Council of Rulers. This court is empowered to adjudicate disputes between courts, determine the constitutionality of local and federal laws, and investigate misconduct by high government officials.

Each emirate administers sharia courts, which have jurisdiction over criminal and family law matters between Muslims, including family disputes over divorce, inheritance, child custody, child abuse, and guardianship of minors. The court may, at the federal level, hear appeals of certain criminal cases, e.g., rape, robbery, and driving under the influence of alcohol, which were originally tried in lower courts.

Electoral System: The UAE does not have a system of popular elections; the Federal Supreme Council elects the country's rulers.

Politics and Political Parties: Political parties are prohibited in the UAE.

Mass Media: The government-owned Emirates Media publishes *Al Ittihad* newspaper and owns Abu Dhabi's radio and television stations. Another newspaper, *Al Bayan*, is also government owned, as are most television and radio stations. The country's largest English-and Arabic-language newspapers, *Al Khaleej* and *Gulf News*, are privately owned. By law, the Ministry of Information licenses all publications and approves the appointment of editors. Laws also govern press content and proscribed subjects.

Limits on media freedom are being challenged by the establishment of Dubai Media City (DMC), a free zone intended to attract media and marketing services, business and information services, news media, and multimedia/Internet, as well as publishers, broadcasters, music companies, and production firms. In addition to tax benefits, companies locating there have been guaranteed that the government will not censor their news and information content, provided certain relatively liberal guidelines of taste and propriety are met. In 2004 more than 550 media companies were based at the DMC.

Foreign Relations: In 1981, mainly in response to the threat to regional security posed by the Iran-Iraq War, the UAE joined with Saudi Arabia, Kuwait, Bahrain, Qatar, and Oman to form the Co-operation Council for the Arab States of the Gulf, now the Gulf Co-operation Council (GCC). The GCC works to foster greater political, social, and economic integration among Gulf countries and increasingly has focused on improving member states' defense capabilities. The UAE is a member of the United Nations (UN) and the Arab League and has established diplomatic relations with more than 60 countries, including the United States, Japan, China, and most West European countries.

Since 1970, when petroleum exploration began, tensions have existed between the UAE and Iran over the sovereignty of Abu Musa, an island situated between the two countries in the Strait of Hormuz. In 1992, after 20 years of joint control, Iran seized civilian installations on the island and later claimed sovereignty over this island, as well as Greater Tunb and Lesser Tunb. Efforts by the GCC to resolve the dispute failed, and in 1996 Iran opened an airport on Abu Musa and established a power station on Greater Tunb. In December 1999, after numerous attempts to negotiate a settlement through a tripartite committee established by the GCC, the UAE renewed its request for Iran to either enter into direct negotiations or agree to international arbitration. The following year, the UAE stated that it would refer the issue to the GCC committee. Events in Iraq have since overshadowed this dispute, and as of late 2005 no significant progress had been made toward a resolution.

In 1990 the UAE opposed Iraq's occupation of Kuwait and provided foreign armed forces opposing the Iraqi invasion with military facilities in the emirates. In 1997, however, the UAE provided humanitarian aid to Iraq, and the following year it expressed opposition to the economic blockade against Iraq and announced that diplomatic ties would be restored. Although the UAE reopened its embassy in the Iraqi capital in April 2000, in that same year it lent support

to a GCC declaration that urged Iraq to comply with UN resolutions. This endorsement may have been given to gain GCC support for the UAE in its territorial dispute with Iran. In March 2003, the UAE supported the Arab League resolution pursuant to which member states agreed not to participate in the United States-led campaign in Iraq, but once the conflict began, the UAE agreed to allow U.S. Air Force personnel and combat aircraft to be stationed at Al Dhafra Air Base near Abu Dhabi. The UAE subsequently provided additional humanitarian aid to Iraq and in January 2004 agreed to write off most of Iraq's US\$3.8 billion debt.

In response to the attacks of September 11, 2001, the UAE severed diplomatic relations with the Taliban regime in Afghanistan and, together with other GCC members, pledged support for U.S. efforts to bring to justice the perpetrators of the attacks. The UAE did, however, state that it wanted U.S. efforts to be linked to a resumption of the Arab-Israeli peace process. In March 2002, after the defeat of the Taliban and the installation of an interim Afghan government in its place, the UAE reopened its embassy in Kabul. Although the UAE continues to be pro-Western, developments in the Gulf region, particularly the war in Iraq and the threat of U.S. action against Iran, remain a serious concern, and regional issues are the focus of the UAE's foreign policy.

Membership in International Organizations: In 1981 the UAE was a founding member of the Co-Operation Council for the Arab States of the Gulf, known today as the Gulf Co-Operation Council, or GCC. The UAE is a member of the United Nations (UN) and several of its affiliates and specialized agencies—Food and Agriculture Organization, International Civil Aviation Organization, International Fund for Agricultural Development, International Labour Organization, International Maritime Organization, International Telecommunication Union, UN Conference on Trade and Development, UN Educational, Scientific and Cultural Organization, UN Industrial Development Organization, Universal Postal Union, and World Health Organization. The UAE is also a member of the Arab Bank for Economic Development in Africa, Arab Fund for Economic and Social Development, Group of 77, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Criminal Court (signatory), International Criminal Police Organization, International Finance Corporation, International Federation of Red Cross and Red Crescent Societies, International Hydrographic Organization, International Monetary Fund, Islamic Development Bank, League of Arab States, Multilateral Investment Guarantee Investment Agency, Organisation for the Prohibition of Chemical Weapons, Organization of Arab Petroleum Exporting Countries, Organization of the Islamic Conference, Organization of the Petroleum Exporting Countries, World Intellectual Property Organization, World Meteorological Organization, World Tourism Organization, and World Trade Organization.

Major International Treaties: The UAE is a signatory to various international agreements on aviation, sale of defense articles and services, security of military information, investment guaranties, mapping, postal matters, taxation, and trade in textiles. The UAE is a Non-Annex I country under the United Nations Framework Convention on Climate Change. The UAE is not a signatory to the Kyoto Protocol, but has acceded to it, which has the same legal effect as ratification. The UAE is a signatory to the Nuclear Non-Proliferation Treaty and a party to the Chemical Weapons Convention; it has signed but not ratified the Biological Weapons Convention. The UAE is also a party to environmental conventions on Desertification, Endangered Species, Hazardous Wastes, Marine Dumping, and Ozone Layer Protection.

NATIONAL SECURITY

Armed Forces Overview: In May 1976, the UAE's main defense forces were merged, and in November the provisional constitution was amended to give the federal government the exclusive right to levy armed forces and acquire weapons. In 1997 the union was further strengthened when Dubai disbanded its armed forces and integrated them into the federal General Headquarters, which are based in Abu Dhabi. At present, the crown prince of Abu Dhabi is the head of the armed forces and as such has strong ties with the United States, which is the UAE's main Western ally. The UAE is nearing the end of a 10-year, US\$15 billion program to modernize its armed forces, upgrade its defense capabilities, and acquire modern technology. As a result of these efforts, the country is considered the most rapidly developing military power in the Gulf region. The UAE military consists of an army, navy, and air force. In 2004 total active troops were estimated at 50,500 personnel: army, 44,000; navy, 2,500; and air force, 4,000. Estimates in 2005 raised the total to 59,000 personnel.

Foreign Military Relations: The United States remains central to the UAE's defense policy. A defense pact with the United States, agreed to after the 1991 Gulf War and signed in 1996, allows the United States to preposition some troops and equipment in the UAE and affords it some rights to use air bases in the emirates. In 2004 the UAE and the United States signed a US\$6.4 billion contract for the delivery of 80 F-16E/F Desert Falcon combat aircraft to the UAE air force by 2007. The first installment, delivered in April 2005, was marked by a high-profile official ceremony. Nearly 1,000 UAE personnel train at U.S. Army aviation centers in the United States. In 2003 the UAE, in conjunction with the United States, Britain, and France, established the Air Warfare Centre at Al Dhafra Air Base to serve as a regional training center, including F-16 training for the UAE and other Gulf Co-Operation Council (GCC) countries. Despite the significance of the military relationship with the United States, the UAE has sought diversification in the procurement of weaponry. France remains a primary source of military matériel, as witness recent purchases of Mirage 2000-9 combat aircraft and Panhard light armored vehicles. Russia, Germany, and Ukraine also have figured as actual or potential sources of military equipment.

External Threats: The UAE is concerned by the military threat posed by Iran, given Iran's unilateral seizure of disputed islands in the Strait of Hormuz, its possession of intermediate-range ballistic missiles, and its suspected development of a nuclear capability. The UAE is not considered to be as vulnerable as Saudi Arabia to the threat from al Qaeda and other militant Islamist groups, as these groups do not have a base of operations or support in the emirates. There are, however, security concerns because of the general volatility of the Gulf region, the repeated terrorist attacks in Iraq, the size and mobility of the UAE's large, predominantly Muslim expatriate population, and the country's pro-Western and liberal business environment. UAE officials, who meet regularly with their counterparts in the U.S. Departments of State and Defense, are concerned about the deteriorating situation in Iraq, as well as the threat of further U.S. military action in the region, particularly against Iran, and the impact such an action would have on the UAE's unpopular pro-Western stance. In February 2005, at a major defense conference in Abu Dhabi, the UAE armed forces signed various agreements to purchase satellite surveillance systems and unmanned reconnaissance vehicles. Military experts view this shift from traditional military spending (e.g., tanks and aircraft) as an acknowledgment that the UAE's

primary external threat has shifted from a conventional military attack to the threat of insurgency and terrorism.

Defense Budget: The defense budget has been level since 1995, at US\$2.8 billion. Given that several significant purchases of military equipment have been made during this period, e.g., F-16 combat aircraft from the United States and Mirage 2000 combat aircraft from France, it is likely that additional procurement funds from external state investments are being made available to the military, thereby raising the actual level of defense spending well over the official budget number.

Major Military Units: The UAE military is divided into an army, navy, and air force (including a police air wing). The army, which is headquartered in Abu Dhabi, is organized into one Royal Guard brigade, two armored brigades, three mechanized infantry brigades, two infantry brigades, and one artillery brigade (three regiments). Dubai has two mechanized infantry brigades that are not integrated into union forces. The navy is based in Abu Dhabi, with additional facilities in Dubai, Ras al Khaymah, and Sharjah. The navy also includes a marine battalion. Principal air force units include three fighter ground-attack squadrons, one fighter squadron, and one combat-capable trainer squadron. The air defense force has two brigades (three battalions).

Major Military Equipment: The army's main equipment consists of a combination of primarily French- and U.S.-made armored vehicles. The army is reported to be equipped with 469 main battle tanks, 76 light tanks, 113 reconnaissance vehicles (including the acquisition in 2004 of 24 French Panhard scout cars), 430 armored infantry fighting vehicles, 860 armored personnel carriers, 93 towed artillery, 181 self-propelled artillery, 72 multiple rocket launchers, 155 mortars, 6 Scud B (up to 20 missiles) surface-to-surface missiles, 305 antitank guided weapons, 262 recoilless launchers, 62 air defense guns, and 40 surface-to-air missiles. The army's armored capability has been enhanced as part of the UAE's military modernization program.

The navy's inventory includes two frigates, two corvettes, eight missile craft, six coastal patrol craft, five landing craft (tank), and two support and miscellaneous craft. Naval aviation has 11 helicopters and another seven helicopters in an antisurface warfare role. As part of the UAE's military modernization program, the navy is seeking to upgrade its bluewater capabilities with the construction of six multirole corvettes and to enhance its amphibious capabilities through the acquisition of assault and landing craft as well as amphibious armored personnel carriers for its marine battalion.

The air force has 106 combat aircraft and 59 armed helicopters, as well as assorted reconnaissance aircraft, transport aircraft, transport helicopters, search-and-rescue helicopters, training aircraft, and both air-to-air and air-to-surface missiles. Air force capabilities are being upgraded significantly through the acquisition of 80 F-16 combat aircraft and 33 multirole Mirage 2000-9 combat aircraft and the upgrading of the 30 Mirage combat aircraft already in the inventory.

Military Service: The UAE's military is an all-volunteer, all-male force, of which an estimated 30 percent are expatriates.

Paramilitary Forces: The UAE's paramilitary force consists of a Coast Guard (under the Ministry of Interior) and Frontier Corps. This force maintains 40 patrol craft (inshore) plus a number of boats.

Foreign Military Forces: At Al Dhafra Air Base near Abu Dhabi, the U.S. Air Force's 380th Air Expeditionary Wing has operated aerial refueling tankers, the Global Hawk, and U2 spy planes since early 2002 in support of Operation Enduring Freedom in Iraq. Al Dhafra is expected to become a permanent U.S. Air Force F-16 base for regional operations. The U.S. Air Force currently maintains about 1,300 troops in the UAE.

Military Forces Abroad: The UAE is a founding member of the Gulf Co-operation Council (GCC). In 1984 the GCC member country defense ministers agreed on the creation of a two-brigade (10,000 troop) Peninsula Shield Force, based in Saudi Arabia. In December 2000, members signed a defense pact to increase forces to 22,000. The Peninsula Shield Force serves as a joint intervention force to defend the joint border of Saudi Arabia, Kuwait, and Iraq.

Police: Although the UAE's Ministry of Interior oversees the Police General Directorates in each of the seven emirates, each emirate maintains its own police force and supervises its police stations. Police stations take complaints from the public, make arrests, and forward all cases to the public prosecutor, who in turn transfers these cases to the courts.

Internal Threat: UAE nationals are viewed as generally supportive of the structure of family rule that has defined the UAE's government since independence was declared in 1971. The current president and ruler of Abu Dhabi, Sheikh Khalifa, faces no serious political challenges from within the ruling families of the emirates. Although there are some concerns regarding the politics of the large (80 percent), predominantly Muslim, expatriate population, the loyalty and effectiveness of the government's security forces are considered to be sufficient to meet this potential threat.

Terrorism: In July 2004, the UAE enacted legislation that criminalized the funding of terrorist organizations. The law also increased the amount of time that public prosecutors can hold suspects in terrorism-related cases without charge from 21 days to six months. Terrorism cases are referred to the Federal Supreme Court, which may extend the detention period indefinitely.

In December 2004, the Dubai Ports Authority (DPA), which operates the main container ports of Mina Jabal Ali and Mina Rashid, became the first Middle Eastern port to participate in the U.S. Homeland Security Container Security Initiative (CSI) program, which is aimed at preventing materials that could be used by terrorist groups from entering the United States in shipping containers. Under the CSI, DPA employees will screen suspicious United States-bound containerized cargo transiting Dubai's ports.

Dubai is strongly linked to the September 11, 2001, attack on the United States; more than half of the hijackers flew directly out of Dubai International Airport to the United States. In response to concerns that the UAE banking system had been used by the 9/11 hijackers to launder funds, in mid-2002 the UAE adopted legislation giving the Central Bank the power to freeze any suspected accounts for seven days without prior legal permission. In addition, banks have been

advised to carefully monitor transactions passing through the UAE from Saudi Arabia and Pakistan, and are now subject to more stringent transaction and client reporting requirements. As of late 2004, however, evidence suggested that al Qaeda was continuing to use Dubai as a logistical hub for international travel, planning, and finance.

Human Rights: Although the UAE government has made some advances in the protection of human rights, the U.S. Department of State notes in its annual report on human rights practices that numerous fundamental practices and policies exist to the contrary. Specifically, the UAE does not have democratically elected institutions (citizens do not have the right to change their government) or political parties; free assembly and association are restricted; and the rights of workers are limited. Trafficking in women as prostitutes and the use of very young foreign boys as camel jockeys continue despite government pledges to end these practices.

Although the UAE constitution provides for freedom of speech and the press, in practice these rights are limited. By law, the Ministry of Information licenses all publications and approves the appointment of editors. Press content also is governed by law. Negative comments about Islam, the government, ruling families, or UAE citizens (by expatriates) are punishable by imprisonment, although this regulation is rarely enforced, as the press practices self-censorship. The Ministry of Information and Culture reviews imported printed material for content and imposes distribution limitations on material considered pornographic, excessively violent, derogatory to Islam, or contrary to government foreign policy.

On the positive side, in 2004 the Dubai police opened designated departments in all emirate police stations that are mandated to protect the human rights of both victims and perpetrators of crime. Dubai police also sponsored various human rights workshops and training seminars.